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Date: May 8, 2015

TO: MEMBERS, AUDIT COMMITTEE

I. AGENDA ITEM # AND TITLE :	Open Agenda Item 4 – Completed Closed Audits
II. NAME AND PROGRAM:	Dante Robinson, Chief of Internal Affairs
III. ACTIVITY:	<input checked="" type="checkbox"/> Informational <input type="checkbox"/> Request for Direction <input type="checkbox"/> Action Proposed <input type="checkbox"/> Exploratory
IV. JUSTIFICATION:	<input checked="" type="checkbox"/> Standard/Required Item <input type="checkbox"/> Board Request – New Item <input type="checkbox"/> New Topic from Staff

V. EXECUTIVE SUMMARY:

IAD highlights six projects: Claims Operations Site Visit and File Review Audit - Fresno, Real Estate Management Audit, Active Directory Audit, Corporate Secretary Board Audit, Enterprise Risk Management Audit, Claims Operations Site Visit and File Review Audit – Santa Ana.

VI. ANALYSIS:

- a. In the Claims Operations Site Visit and File Review (Fresno and Santa Ana), we identified six issues. The issues and action plans relate to improving the control activities over average weekly wage calculations and timely benefit notices, claims closing standards for non-rated and non-litigated claims, documentation for case plans, and documentation of the initial three point contact on new cases.
- b. In the Real Estate Management audit, we identified six issues. The issues and action plans relate to improving control activities over inventory records of assets, fixed asset disposition reporting, vendor management, security in leased buildings, management of maintenance programs, and written internal control procedures for processes owned by Real Estate Management.
- c. In the Active Directory audit, we identified three issues. The issues and action plans relate to improving control activities over distribution and security groups, accuracy and completeness of employee’s manager information and accuracy and completeness of consultant’s company identification.
- d. In the Enterprise Risk Management audit, we identified seven issues. The issue and action plans relate to improving the control activities for establishing formal ERM policy, communication and involvement of key stakeholders, risk identification and evaluation process, formal reassessment and self-evaluation process, dedicated

- ERM resources and ERM training, risk committee meetings, and for Board receipt of details on risks and risk mitigation strategies and oversight of enterprise-wide implementation of ERM.
- e. Corporate Secretary Board audit had no issues.
 - f. IAD solicits action plan status monthly by sending out the open issue report to executives.

VII. RECOMMENDATION:

- a. No action needed

VIII. PRESENTATION EXHIBITS:

- a. None

IX. APPENDIX:

- a. Internal Audit Report 1st Quarter
- b. Internal Audit Appendix



APPENDIX: INFORMATIONAL DOCUMENT FOR AUDIT COMMITTEE

Completed Closed Audits

Dante Robinson, Chief of Internal Affairs

2014 Claims Operations Site Visit and File Review Audit - Fresno PAO 728

Objective/Scope

Assess compliance with California workers' compensation regulatory requirements and State Fund claims procedures. Identify claims operational risks, fraud risks, assess and detect fraud, waste and abuse. Evaluation of claims adjusting activity was limited to the period from March 1, 2013 to February 28, 2014.

Findings	Remediation
<p>Disability: Benefit notices were not sent timely and case balances were not posted properly.</p>	<p>We recently implemented a new workflow for Workers' Compensation Insurance Technicians to review the 2nd Temporary Disability Check Run and send it to Assistant Claims Manager for follow-up. Multiple quality items are checked at that point, including Benefit Notice letters.</p> <p>Provide refresher training on wages and the calculation of wages. Require Assistant Claims Managers to document the review of all wages for all pre-Award cases in their Management Claim Reviews.</p> <p>Executive: <u>Beatriz Sanchez</u> Expected Implementation: <u>11/1/2014</u></p>
<p>Other (Fraud Referral to SIU, Settlement Authority, Medicare Set Aside, Closing)</p> <p>A uniform timeliness standard for closing non-rated and non-litigated claims doesn't exist. A uniform timeliness standard is necessary to ensure the claims are closed properly and uniformly monitored to ensure</p>	<p>A review of the exceptions found that guidance was available in the CRM for 7 of the instances. The 2 remaining instances would not have benefited from additional guidance; 1 instance was caused by oversight and the other instance was a situation that needed to be determined on a case by case basis.</p> <p>Claim closure is dependent on a myriad of factors, which inhibit the provision of a uniform standard. Adjusters are provided direction in the Claims Reference Manual based on the various factors specific to the case. This includes CRM sections on</p>

Findings	Remediation
closing timeliness.	<p>Case Make-up and Closing Claims as well as sections on Liens, Medical Bills, and Permanent Disability. Adjusting is an art and, as such, there needs to be flexibility for the adjuster and adjusting location management to determine the best course of action based on the factors involved.</p> <p>In addition, Claims Business Technology Division (CBTD) began generating and distributing the Critical Activity Report on a monthly basis to adjusting location management in July 2014 as a tool to assist with monitoring critical activities including low activity. The intent of the Critical Activity Report is to allow adjusting location management an efficient way to monitor claims with low or no activity, and to direct further adjusting activity up to and including case closure. Adjusting location management also has the option of generating the report in Oracle Discoverer.</p> <p>No additional tools, memos, or updates are needed.</p> <p>Refresher training in Closing Guidelines and policies with specific cases will be provided to the adjusters in unit meetings.</p> <p>Executive: <u>Beatriz Sanchez</u> Expected Implementation: <u>11/1/2014</u></p>

Proprietary: No

2014 Real Estate Management Audit PAO 738

Objective/Scope

The objective of this audit was to identify key business risks and to evaluate the system of internal controls and the effectiveness of risk management practices associated with Real Estate Management. The scope of our audit included testing of transaction records, relevant systems events, safeguarding of assets, and interviews with relevant personnel. In addition, we evaluated any prior audit issues, self-discussed issues, and regulatory examinations issues. The period subject to review was June 30, 2012 through June 30, 2014. Based on the risk assessment we completed with input from management, our audit focused on the following business processes:

- Real Estate
- Facilities Management
- Security

Findings	Remediation
<p>Lack of Internal Control Procedures for the Following REM Processes.</p> <ul style="list-style-type: none"> ▪ Real estate purchases and the due diligence process ▪ Lease administration such as qualifications of tenants, security deposits, insurance, etc. ▪ File management ▪ Sale of properties and surplus assets ▪ Contract management ▪ Financial reporting ▪ Construction management ▪ Inventory management 	<p>While management disagrees with recommendations for REM to develop procedures outside of its scope of responsibility (i.e. contract management, financial reporting), expertise for which support is outsourced (i.e. real estate brokerage), REM will develop written procedures for internal processes owned by REM.</p> <p>Executive: <u>Andreas Acker</u> Expected Implementation: <u>9/30/2015</u></p>
<p>Vendor Management Needs Improvement</p> <p>REM was out of compliance with State Fund contract policy and paying vendors on expired vendor contracts or with no contract.</p>	<p>Vendor management is an enterprise wide issue, which is being addressed by Enterprise Procurement (EP). REM will follow the procedures recommended by EP. In the meantime, EP provided REM with a list of all contracts with 2015 expiration dates and we developed a proposed schedule for RFP. EP will continue to meet with REM during the last quarter of each year to develop a contract RFP schedule for the following year. REM will monitor the contracts for which it is responsible to ensure compliance with the terms and conditions. As explained during the audit process, contractors for contingent workers that supplement the workforce (i.e. stationary engineers, janitors) are not paid by task or project, but an hourly rate. Supervisors evaluate the overall quality of performance. Contingent workers who do not perform are replaced by the vendor upon request.</p> <p>Executive: <u>Andreas Acker</u> Expected Implementation: <u>6/30/2015</u></p>
<p>Inconsistent Inventory Records of Assets</p>	<p>We currently do not have an asset management system for State Fund. Implementation of a new system is being evaluated for 2015.</p> <p>Executive: <u>Andreas Acker</u> Expected Implementation: <u>12/31/2015</u></p>
<p>Fixed Assets Disposition Not Timely Reported</p>	<p>In addition to implementing a system for tracking assets mentioned previously, policies and procedures will be developed to include notification of Fiscal regarding</p>

Findings	Remediation
	<p>the retirement of fixed assets.</p> <p>Executive: <u>Andreas Acker</u> Expected Implementation: <u>6/30/2015</u></p>
<p>Inadequate Security in Leased Locations</p>	<p>We do not believe additional security measures are required. All floors occupied by State Fund require key card access to gain entry into workspace. REM will continue to send tailgating and door closure reminders. Employees and management need to recognize the locations are shared leased space with open public access to the building. The current security is consistent with the level of security service to the area.</p> <p>Monterey Park- We will work with the landlord on replacing cameras for the State Fund occupied areas.</p> <p>Executive: <u>Andreas Acker</u> Expected Implementation: <u>6/30/2015</u></p>
<p>Management of Maintenance Programs Needs Improvement</p>	<p>REM key initiative for 2015- Roll out phase # 3 of the Plan On Module- Preventive Maintenance/Work order system. 2015 Q4</p> <p>Executive: <u>Andreas Acker</u> Expected Implementation: <u>12/31/2015</u></p>

Proprietary: No

2014 Active Directory Audit PAO 754

Objective/Scope

The objectives of this audit were to identify key business risks and to evaluate the system of internal control and the effectiveness of risk management practices associated with System Services (Active Directory). IAD evaluated any prior audit issues, self-disclosed issues, and regulatory examinations. The time period subject to review was January 1, 2014 through October 21, 2014.

Findings	Remediation
<p>Distribution and Security Groups Need Improvement</p>	<ol style="list-style-type: none"> 1. Assess Active Directory groups for totals. 2. Assess groups by member count and email usage.

Findings	Remediation
	<p>3. Assess Primary Security Groups that are email enabled.</p> <p>4. Establish dynamic Groups that are based on specific criteria to provide more real time accuracy.</p> <p>5. Deprecate distribution lists (DLs) that are no longer valid or active, have 0 members.</p> <p>6. Rename the DLs that are not following naming convention.</p> <p>7. Fill in the descriptions.</p> <p>8. Assign an ownership by contact or senior leadership member.</p> <p>9. Hide security groups and disable email connections; establish new DLs to replace email enabled security groups where possible.</p> <p>Executive: <u>Marj Hutchings</u> Expected Implementation: <u>3/31/2015</u></p>
<p>Incorrect or Missing Employee's Manager Information in the active directory</p>	<p>Management will have the feed from Human Resources include the Manager field; this will allow for automatic updates from Human Resources to ensure the data is as accurate as the source Human Resources system.</p> <p>Executive: <u>Marj Hutchings</u> Expected Implementation: <u>11/30/2014</u></p>
<p>Lack of Consultant's Vendor or Company Identification in the active directory</p>	<p>A communication will be going out to the Service Desk staff that we will be requiring them to enter "Consultant" in the Company field in AD for existing and all new onboardings. The communication will serve as a reminder that this is our policy. The communication will go out by November 14, 2014.</p> <p>Executive: <u>Marj Hutchings</u> Expected Implementation: <u>11/30/2014</u></p>

Proprietary: No

2014 Corporate Secretary Board Audit PAO 733

Objective/Scope

The objectives of this audit were to identify key business risks, and to evaluate the system of internal control and the effectiveness of risk management practices associated with Corporate Secretary/Board. The scope of our audit included testing of notices, agendas,

minutes of the Board meetings, Board member reimbursement transaction records, relevant systems events, safeguarding of assets, interviews with relevant personnel and observation of the actual open sessions on November 19-21, 2014.

There were no issues identified that required management’s corrective action.

Proprietary: No

2014 Enterprise Risk Management Audit PAO 743

Objective/Scope

The goal of this internal audit was to evaluate the design of the ERM Program, the appropriateness of the general processes in place, and opportunities for improvement.

The audit included validation and assessment of the following objectives relating to the ERM Program:

- The appropriateness of the design of and the effectiveness of the current ERM Program.
- Effectiveness of the risk assessment and reporting process.
- Effectiveness of management and mitigation of key risks.
- Proper establishment of monitoring activities.

Findings	Remediation
The ERM Program Lacks a Formalized Foundation (Policy) and Fundamental Structure (Program)	<p>Risk Management has engaged Willis to assist with the implementation and strengthening of the ERM program at State Fund. The first meeting with Willis occurred on December 10, 2014, to lay out the basics of the project plan. At least three more meetings are scheduled in 2014 to finalize the plan, goals and milestones. The project will commence on January 1, 2015, and is anticipated to complete on June 30, 2015 (6 months).</p> <p>The plan will be in final form by the first week in January. At that time, a management plan update will be provided with more specifics relative to each individual finding contained in this audit. In the interim this is the Plan for all 7 Issues.</p> <p style="text-align: center;">Executive: <u>Ken Van Laar</u></p> <p style="text-align: center;">Expected Implementation: <u>9/30/2015</u></p>
The ERM Program Lacks a Formalized and Consistent Process for Communication,	Risk Management has engaged Willis to assist with the implementation and strengthening of the ERM program at State Fund. The first meeting with Willis

Findings	Remediation
Reporting and Monitoring that Involves Key Stakeholders	<p>occurred on December 10, 2014 to lay out the basics of the project plan. At least three more meetings are scheduled in 2014 to finalize the plan, goals and milestones. The project will commence on January 1, 2015 and is anticipated to complete on June 30, 2015 (6 months).</p> <p>The plan will be in final form by the first week in January. At that time, a management plan update will be provided with more specifics relative to each individual finding contained in this audit. In the interim this is the Plan for all 7 Issues.</p> <p style="text-align: center;">Executive: <u>Ken Van Laar</u> Expected Implementation: <u>9/30/2015</u></p>
The Risk Identification and Evaluation Process Needs Improvement	<p>Risk Management has engaged Willis to assist with the implementation and strengthening of the ERM program at State Fund. The first meeting with Willis occurred on December 10, 2014, to lay out the basics of the project plan. At least three more meetings are scheduled in 2014 to finalize the plan, goals and milestones. The project will commence on January 1, 2015, and is anticipated to complete on June 30, 2015 (6 months).</p> <p>The plan will be in final form by the first week in January. At that time, a management plan update will be provided with more specifics relative to each individual finding contained in this audit. In the interim this is the Plan for all 7 Issues.</p> <p style="text-align: center;">Executive: <u>Ken Van Laar</u> Expected Implementation: <u>9/30/2015</u></p>
ERM Lacks a Formalized Reassessment and Self-Evaluation Process	<p>Risk Management has engaged Willis to assist with the implementation and strengthening of the ERM program at State Fund. The first meeting with Willis occurred on December 10, 2014, to lay out the basics of the project plan. At least three more meetings are scheduled in 2014 to finalize the plan, goals and milestones. The project will commence on January 1, 2015, and is anticipated to complete on June 30, 2015 (6 months).</p> <p>The plan will be in final form by the first week in January. At that time, a</p>

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	<p>management plan update will be provided with more specifics relative to each individual finding contained in this audit. In the interim this is the Plan for all 7 Issues.</p> <p>Executive: <u>Ken Van Laar</u> Expected Implementation: <u>9/30/2015</u></p>
<p>There are Insufficient Resources and Training for an Effective ERM Program</p>	<p>Risk Management has engaged Willis to assist with the implementation and strengthening of the ERM program at State Fund. The first meeting with Willis occurred on December 10, 2014, to lay out the basics of the project plan. At least three more meetings are scheduled in 2014 to finalize the plan, goals and milestones. The project will commence on January 1, 2015, and is anticipated to complete on June 30, 2015 (6 months).</p> <p>The plan will be in final form by the first week in January. At that time, a management plan update will be provided with more specifics relative to each individual finding contained in this audit. In the interim this is the Plan for all 7 Issues.</p> <p>Executive: <u>Ken Van Laar</u> Expected Implementation: <u>9/30/2015</u></p>
<p>Risk Committee Meetings are Not Functioning as Designed and are Therefore Ineffective</p>	<p>Risk Management has engaged Willis to assist with the implementation and strengthening of the ERM program at State Fund. The first meeting with Willis occurred on December 10, 2014, to lay out the basics of the project planAt least three more meetings are scheduled in 2014 to finalize the plan, goals and milestones. The project will commence on January 1, 2015, and is anticipated to complete on June 30, 2015 (6 months).</p> <p>The plan will be in final form by the first week in January. At that time, a management plan update will be provided with more specifics relative to each individual finding contained in this audit. In the interim this is the Plan for all 7 Issues.</p> <p>Executive: <u>Ken Van Laar</u> Expected Implementation: <u>9/30/2015</u></p>
<p>The Board Should Receive Greater Detail</p>	<p>Risk Management has engaged Willis to assist with the implementation and</p>

Findings	Remediation
<p>about Risks and Risk Mitigation Strategies to Oversee Enterprise-wide Implementation of ERM</p>	<p>strengthening of the ERM program at State Fund. The first meeting with Willis occurred on December 10, 2014, to lay out the basics of the project plan. At least three more meetings are scheduled in 2014 to finalize the plan, goals and milestones. The project will commence on January 1, 2015, and is anticipated to complete on June 30, 2015 (6 months).</p> <p>The plan will be in final form by the first week in January. At that time, a management plan update will be provided with more specifics relative to each individual finding contained in this audit. In the interim this is the Plan for all 7 Issues.</p> <p style="text-align: center;">Executive: <u>Ken Van Laar</u> Expected Implementation: <u>9/30/2015</u></p>

Proprietary: No

2014 Claims Operations Site Visit and File Review Audit – Santa Ana PAO 730

Objective/Scope

Assess compliance with California workers' compensation regulatory requirements and State Fund claims procedures. Identify claims operational risks, fraud risks, assess and detect fraud, waste and abuse. Evaluation of claims adjusting activity was limited to the period from June 1, 2013, to May 31, 2014.

Findings	Remediation
<p>Liability: Three-point contact was not performed consistently.</p>	<p>Our action plan is to inform the staff at future meeting(s) of the importance of making contact with the employer, employee, and medical provider when appropriate, and to continue to document our attempts at contact. First call ACM to monitor files for completion of 3 point contact.</p> <p style="text-align: center;">Executive: <u>Beatriz Sanchez</u> Expected Implementation: <u>4/30/2015</u></p>
<p>Disability: Benefit notices were not sent timely and case balances were not posted properly.</p>	<p>Regarding benefit notices: Our action plan is to inform the staff at future meeting(s) of the importance of sending benefit notices timely. ACMs will also be reminded at future meeting(s) of the importance of making sure the proper benefit notice is sent when they are reviewing and approving payments that are above the adjuster's authority levels.</p>

Findings	Remediation
	<p>Regarding case balances not being posted: We found balancing was being done but not posted consistently. Our action plan is to inform the staff in future meeting(s) of the importance of posting case balances at appropriate times in the life of claims.</p> <p>Executive: <u>Beatriz Sanchez</u> Expected Implementation: <u>4/30/2015</u></p>
<p>File Maintenance: Case plans were not posted consistently.</p>	<p>Our action plan is to inform the staff at future meeting(s) of the importance of posting case plans at appropriate times in the life of the claim and to follow these case plans. The proper use of the ECF Diary System to follow-up on case plan items will also be covered as part of these meeting(s).</p> <p>Executive: <u>Beatriz Sanchez</u> Expected Implementation: <u>4/30/2015</u></p>
<p>Cases were not closed timely.</p>	<p>Our action plan is to inform the staff at future meeting(s) when it is appropriate to close cases and of the importance of closing cases timely. The proper use of the ECF Diary System to follow-up on case closing will also be covered as part of these meeting(s).</p> <p>Executive: <u>Beatriz Sanchez</u> Expected Implementation: <u>4/30/2015</u></p>

Proprietary: No